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C O N F I D E N T I A L SECTION 01 OF 04 AMMAN 005725

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E.O. 12958: DECL: 07/10/2015

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SUBJECT: ASSISTANT SECRETARY WAYNE'S JULY 10 MEETINGS WITH
JORDAN'S CENTRAL BANK GOVERNOR TOUQAN AND FINANCE MINISTER
AL-KODAH

REF: A. AMMAN 5626

[1](#)B. AMMAN 4391

[1](#)C. AMMAN 4440

Classified By: CHARGE DAVID HALE FOR REASONS 1.4 (B) AND (D).

[1](#)1. (C) SUMMARY: In July 10 meetings with Central Bank of Jordan (CBJ) Governor Umayya Touqan and with Minister of Finance Adel Al-Kodah, A/S Wayne repeated earlier calls (Ref B) for action by the Government of Jordan (GOJ) on anti-money laundering/counter-financing of terrorism (AML/CFT) controls. On the Arab Bank's AML/CFT controls, Wayne once again asked for an update, to which Touqan responded the same day with a call to that bank. Embassy later received a report from Arab Bank on its progress. In a meeting with the Minister of Finance, Al-Kodah repeated GOJ support for a rigorous anti-money laundering law. Al-Kodah also said that the oil prices and an increasing deficit would cause the reform process to become "stuck" and asked for increased U.S. assistance. Al-Kodah noted plans for government spending cuts of 20 percent, enhanced tax collection and more privatization of government assets. The GOJ was expecting to collect up to JD 1 billion (USD \$ 1.41 billion) in proceeds from privatization, part of which he hoped could be used to settle Jordan's debts. END SUMMARY.

[1](#)2. (U) Accompanying A/S Wayne in the meeting with Touqan were Acting Econ/C and Econoff (notetaker). In the meeting with the Finance Minister, A/DCM Henzel and Acting Econ/C (notetaker) joined.

CBJ Governor: Pushing AML, Supporting Fiscal Austerity

[1](#)3. (C) In his July 10 meeting with CBJ Governor Touqan, Wayne raised the subjects of anti-money laundering/counter-financing of terrorism (AML/CFT) measures being put in place in Jordan and the GOJ,s plans to extricate itself from the fiscal hole in which it now found itself. Touqan noted the importance of the AML bill being placed before Parliament (NOTE: through an apparent GOJ snafu, AML failed to appear on the agenda for a special session of parliament - Ref A). Touqan suggested that Wayne raise the matter in his other calls, saying that other ministers were worried that there was too much already slated for the upcoming extraordinary session of Parliament. Overall, however, Touqan was pleased with the level of GOJ commitment to the law and hoped that it would be passed in the extraordinary session.

[1](#)4. (C) Touqan responded favorably to Wayne,s request for updated information on measures being taken by Arab Bank to improve its AML/CFT controls worldwide. (NOTE: He later called Arab Bank personally to obtain the requested information. Embassy received a self-reported update from Arab Bank, which has been sent to NEA/ELA and EB/ESC/TFS). Touqan noted that many AML controls were already in place in other Jordanian banks -- for instance, unless banks already knew and were in an established relationship with their customer, they were not allowed to accept cash deposits. His main source of heartburn on AML/CFT issues were transactions outside of the banking system; for instance, the purchase and sale of land for cash.

"Deficit Hawk"

[1](#)5. (C) Touqan portrayed himself as a "deficit hawk" who had pressed for even more stringent austerity measures than had the IMF in its recent visit to Jordan. He expressed his opinion that the deafening silence from GCC donor countries was probably a good thing in the end: "it is high time we stopped depending on them." He said that the new (from July 9) fuel prices would lead to JD 120 million (\$170 million) in savings over 2005 -- less than the CBJ had wanted, but still a step in the right direction. The price rises posed new challenges for the CBJ, however; cement prices had already

gone up 5% in one day, and further inflation was likely. On other measures, Touqan was more ambivalent. While the 20% reductions in ministries, use of utilities, vehicles, travel, and other contributors to operating expense might save a further small amount, Touqan felt that significant savings might be realized from alterations to and improved management of large capital projects.

16. (C) Touqan added that increases in revenue might also be realized through reforms to the tax system. Income taxes currently were producing virtually no revenue because few paid them; the solution would be to go to a 10-15% flat tax, to encourage compliance. As the Jordanian constitution required that income tax be progressive, Touqan allowed that the new structure might be given two tiers instead of just one. On the other hand, Touqan said, the general sales tax (GST) and value-added taxes (VAT) were producing substantial revenue; perhaps the GOJ should look at raising rates and improving collection of a tax that could produce substantially more income if these actions were taken.

Meeting with Finance Minister Al-Kodah

17. (C) With Finance Minister Al-Kodah, A/S Wayne noted the high level of interest in Jordan's economic situation and USG efforts to support Jordan's economic reform program, including with cash support from supplemental assistance. In addition to the \$70 million cash grant (on top of \$30 million in program support), which would give Jordan more flexibility, the USG had responded positively to Jordan's request for a higher debt swap ceiling in the Paris Club. However, other donors remained unconvinced; the U.S. would support Jordan as it continued to press on the debt swaps.

18. (C) Minister Al-Kodah expressed his government's gratitude for U.S. assistance and praised the friendly bilateral relations marked by improving trade and economic ties. The GOJ was making strong efforts to open the economy and had been serious in its follow-on program with the IMF. Economic growth would help fight unemployment and poverty. The government was serious about public reforms, he said, noting that financial management would be one pillar supporting that effort. Fiscal discipline, efficient resource allocation, and more efforts to make the population self-reliant would be hallmarks of the new program. A consultant from Bearing Point was assisting the ministry with its own financial management program. He noted examples of fiscal reform such as the Medium Term Fiscal Framework (MTFF) planning exercise, privatization efforts, tax reform and employment of a Government Financial Management Information System (GFMIS).

Reform Stuck Due to Oil Prices, Debt

19. (C) Jordan was well on its way to reform, the minister continued, but these efforts were now "stuck" due to the high price of oil. The GOJ needed the assistance of the United States to support the three-year phase-out of oil subsidies, ending in the 2007 budget year. In phase one this year, the government had already announced a reduction in oil subsidies by JD 120 million (\$ 170 million), he said. He cited some of the resulting increases in prices of fuel products in Jordan that went into effect July 9, from a 33 percent increase in diesel to a 59 percent increase in fuel oil for industries.

110. (C) At the same time, the Government was embarked on a very serious effort to cut expenses, he said. Starting with a 20 percent cut in government expenditures in FY 2005 by rationalizing government employees' use of cars, telephones and travel allocations, and reducing furniture purchases. The GOJ had to set a good example, and show that it was serious about cutting the budget deficit, Al-Kodah said.

111. (C) A/S Wayne welcomed the three-year plan to eliminate oil subsidies, noting that it would not be easy for the GOJ. More public outreach that explained to the public why the subsidies had to go might create better understanding and make the exercise easier, he added.

112. (C) Two important issues for Jordan were the increase in the price of oil and the need for support on the GOJ's external debt, Al-Kodah said. He noted that each increase in the price of crude oil in the international marketplace had an impact on the oil subsidy deficit. (NOTE: The MOF is now citing the budget impact of oil price increases over the second half of 2005 as JD 13 million (USD \$18.33 million) per USD 1 dollar increase in the price of a barrel of crude. END NOTE.)

Anti-Money Laundering Law

113. (C) A/S Wayne noted the USG's strong interest in a proposed anti-money laundering law (AML) and urged its

passage by the GOJ parliament in the special session, if at all possible. Al-Kodah spoke of the cabinet's consideration of the AML and noted the cabinet's support for the law. AML was on the cabinet's agenda for parliament, he emphasized, and the aim was to win approval. (POST COMMENT: As reported Ref (A), the AML is not on the agenda for the two-week special summer session of parliament.) A/S Wayne replied that the AML was an essential tool to fight terrorists and other criminal elements and that it was important to the USG to know the progress of Jordan in furthering its efforts to thwart terrorists through systems that were as rigorous as possible. Al-Kodah agreed.

14. (C) Al-Kodah noted that the Central Bank of Jordan (CBJ) was getting its systems in place and that the proposed anti-money legislation would allow the CBJ to act vigorously against money laundering.

USG: Cooperation and Support

15. (C) Wayne replied that the USG and GOJ enjoyed good cooperation, noting that an AML would make such coordination easier. A/S Wayne expressed gratitude for the GOJ's efforts. On debt, A/S Wayne said that the G-7 was divided on the issue of debt swaps and forgiveness, but that the USG would try to be supportive of Jordan's request for debt relief. Similarly, the USG had been trying to seek oil assistance for Jordan from Gulf partners and would continue to do so as the opportunity arose.

Tax Reform and Privatization

16. (C) In response to a comment by A/S Wayne that tax reform would help the GOJ with its budget problem, Al-Kodah said that the "number one item on the agenda" was how to improve tax collection. The GOJ had to start by tackling tax evasion, he noted, citing past experience as Director General of Customs and as an Auditor. Equally important to the budget would be the privatization of major government entities, from telecom, where the GOJ was selling 41.5 percent of its Jordan Telecom stock, to the Jordan Phosphate Mine and the Central Electric Generating Company (CEGCO) plant, as well as the Queen Alia International Airport hotel and other real estate. The Jordan Telecom privatization was on a fast track, he said. He was expecting altogether up to 1 billion JD (USD \$ 1.41 billion) in proceeds from privatization, part of which he hoped could be used to settle Jordan's debts. Jordan Petroleum Refinery would not be sold until 2008, when the 50-year concession would expire.

The Budget Deficit

17. (C) The original budget deficit for FY 2005 had been targeted at 270 million JD (USD \$381 million), he said. But with the decline in grants it might reach JD 524 million (USD \$ 739 million) or six percent of GDP. (COMMENT: The budget deficit remains a moving target, depending on what other cost-savings or revenue-enhancing measures one includes. The figure given by Al-Kodah for a revised deficit appears to be based on oil price rises alone; it reflects the difference between the original budget deficit based on USD \$42 per barrel of oil and a more recent projected budget deficit based on USD \$60 per barrel. END COMMENT.) The Finance Ministry subsequently reported to Embassy the current state of play regarding the budget, to be reported septel.

Iraqi Debt

18. (C) A/S Wayne inquired if the GOJ had talked to the Government of Iraq to reconcile Jordan's outstanding claims against Iraq. (He noted that the characterization of those claims -- whether they were sovereign debt or trade ledger accounts -- was still an unresolved matter.) Wayne noted the two sides had talked before on this issue but had not agreed on an outcome. One of the minister's aides responded that the Central Bank was now on the front lines of the Iraq debt issue. (COMMENT: If an accurate depiction of the situation, this is a new development, as Finance Minister Abu Hammour had tracked this issue carefully up until his replacement by Bassem Awadallah in early April, 2005. END COMMENT.)

19. (U) A/S Wayne cleared this cable.
HALE